

NEW HANOVER COUNTY  
ALCOHOLIC BEVERAGE CONTROL BOARD

6009 Market Street  
Wilmington, NC 28405  
Telephone: 910-762-7611 FAX: 910-343-0491  
Website: <http://newhanover.abc.nc.gov>

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DANIEL W. SYKES, Chief Executive Officer

May 12, 2015

**RE: Budget Message**

Dear Members of the Board:

The Proposed Budget Document for the fiscal year July 1, 2015 through June 30, 2016 (FY15/16) has been prepared in accordance with North Carolina General Statute 18B-702 "Financial operations of local ABC boards" and related information provided by the NC ABC Commission. The ABC Board determines, through adoption of an annual budget, the level of customer service that the ABC system will provide, the resources available for operations, and the resources available for capital projects.

The primary drivers during the preparation of this budget included the need for revenues sufficient to fund capital improvements as well as to provide equitable distributions to beneficiaries, and projected operating costs required to sustain acceptable levels of customer service during the budget year.

**Revenues:** The budget consists of projected revenues from liquor sales, mixed beverage surcharges, wine/mixer sales, interest income and miscellaneous receipts of about **\$39 million**. Although some sections of the economy appear to be improving, other sections appear to be unstable, which creates a certain amount of uncertainty. Therefore, overall gross revenues were projected to remain low with a proposed overall sales increase of about **4% percent**.

**Disbursements:** On the disbursements, or "appropriations" side, there are projected expenditures for Taxes, Cost-of-Sales, Operating expenses and Capital Outlays for about **\$37 million**, plus local Alcohol Law Enforcement and tax/profit distributions of **\$4.6 million**. Any excess disbursements over revenues will come from "Unrestricted Assets". The Board's current real estate project is to renovate the facility at 523 S. 17<sup>th</sup> Street, Wilmington, NC. This project should start in early July 2015 with projected completion of January 2016.

**The Board's Budget Process:** The budget process was started immediately after the 3<sup>rd</sup> quarter financial statements were finalized. **It was decided at the April 21, 2015 Board meeting to hold the Public Hearing as part of the Board's meeting which is scheduled for 8:30 AM today, May 12, 2015 at the Board's Main Office, 6009 Market Street, Wilmington, NC.** The Proposed Budget Document is attached and will be released to the Board. Immediately after budget presentation to the Board, notice will be made to both the media and the public that copies of the

documents are available. Copies must be sent to both County Commissioners and the NC ABC Commission; it will also be published on the Board's website. **This must occur by June 1<sup>st</sup>.** The Board will meet again on **June 16, 2015** for further discussion regarding the budget. The Board may approve the Budget Ordinance (Budget and Budget Message) at that time. The Budget must be passed by **July 1<sup>st</sup>.**

**Highlights of the Budget:** Key elements include:

- Conservative sales increases are projected because of the uncertainty of the economy.
- The 17<sup>th</sup> Street/Castle renovation should be nearing completion at calendar year-end.
- There is a strong possibility that the Board will continue to seek new retail sales locations; however, no geographic areas have been specifically identified at this time.
- Employee pay increases will continue be based on merit (as a result of performance reviews), promotions, and/or to adjustments-to-market conditions. Employee cost-of-living pay increases were not included, as none are allowed by Board policy.
- Alcohol law enforcement distributions were increased slightly to assist in controlling the alcohol-related issues within the County.
- Distributions to beneficiaries were budgeted as approximately 75% of net profits projected to earn during the upcoming fiscal year.

**Goal:** The Board's goal is to continuously enhance the level of customer service for both retail customers and mixed beverage permit holders (LBD customers).

**Fiscal Policy:** There are no major changes in fiscal policy.

**Debt:** The Board does not have any debt at this time; however, debt may be incurred during the upcoming year depending on the outcome of the 17<sup>th</sup> Street renovation construction bids and related cash flow.

**Priorities and Assumptions:**

- The Board's primary source of revenue is through the sale of spirituous beverages. A key assumption is the amount of expected sales growth. Revenue projections are calculated using expected sales growth combined with historic sales figures.
- The Board's books and records are maintained based on the Enterprise method of accounting; this is different than the Fund method of accounting used by most government entities.
- Depreciation and the cost of post-employment benefits are a part of the Board's annual financial statements; however, these expenses are not reflected in the modified-cash budget. Projected cash outlays for Capital Expenditures are reflected in the budget.
- The Board contracts primarily with the New Hanover County Sheriff's Department for Local ABC law enforcement; it also continued its law enforcement contract with the City of Wilmington Police Department for additional coverage.
- Alcohol Education: Most ABC Boards in NC are required to contribute 7% of net profits (after certain adjustments) for alcohol education and rehabilitation; the NHC ABC Board is not subject to this law because there were applicable local acts in existence before the 7% law was enacted. In accordance with local acts, profits are distributed to the County Government and local municipalities for use at their own discretion.

- NC ABC Commission Rules (4 NCAC 2R.0902) define “working capital” as “the total cash, investments and inventory less all unsecured liabilities.”
  - As of March 31, 2015, – per internal calculations:
    - Minimum working capital was calculated at \$1,099,300.
    - The total of “Minimum working capital” and “Unrestricted Capital” as of 03/31/2015 was \$3.94 million.
  - No funds have been “Restricted for Capital Improvements” as of 4/30/2015 pending receipt of the construction bids for the 17<sup>th</sup> Street project; it is anticipated that this will take place near the end of May 2015.
  - In addition to providing for operating expenses and distributions, the Board must retain a sufficient level of working capital to “seed” future capital improvements and expansion costs.

**Staffing Summary:**

The Board has 45 full-time and about 20 part-time employees (there is minor seasonal fluctuation); which equates to about 58 full-time equivalents (FTE’s). These employees are distributed within the departments as follows:

Store Employees	47
Purchasing and Logistics Employees	6
General and Finance Employees	<u>5</u>
Total	<u>58</u>

**Conclusion:**

The Proposed Budget Document reflects the Board’s commitment to fulfill its mission based on known information.

*Signed //Daniel W. Sykes//*

Daniel W. Sykes  
Chief Executive Officer

Attached:      Proposed Budget Document for Fiscal Year 2015/2016